

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name St. Clair County Department of Public Works	County St. Clair
Fiscal Year End December 31, 2006	Opinion Date March 14, 2007	Date Audit Report Submitted to State June 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

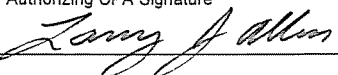
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
Zip 48060			
Authorizing CPA Signature 		Printed Name Larry J. Allen	License Number 1101008117

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
DECEMBER 31, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

DECEMBER 31, 2006
TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements -	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Notes to Financial Statements	20
Supplementary Information –	
Combining Statements – Nonmajor Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	33
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	33
Individual Governmental Fund Statements:	
Balance Sheets – Debt Service Funds	36
Statements of Revenues, Expenditures and Changes in Fund Balances – Debt Service Funds	36
Balance Sheets – Capital Projects Funds	40
Statement of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Funds	40

INDEPENDENT AUDITOR'S REPORT

To the Board of the Department
of Public Works of St. Clair County
St. Clair, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Public Works of St. Clair County, Michigan, as of and for the year ended December 31, 2006, as shown on pages 9 through 19. These financial statements are the responsibility of the Department of Public Works management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department of Public Works of St. Clair County, Michigan, are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of St. Clair, Michigan, that is attributable to the transactions of the Department of Public Works. They do not purport to, and do not, present fairly the financial position of the County of St. Clair, Michigan, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Department of Public Works of St. Clair County, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 14, 2007 on our consideration of the Department of Public Works of St. Clair County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Public Works of St. Clair County, Michigan's basic financial statements. The combining nonmajor fund financial statements and individual statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and individual statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.


Certified Public Accountants

March 14, 2007

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the St. Clair County Department of Public Works (the "DPW"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the DPW for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the St. Clair County DPW basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DPW finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the DPW assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the DPW is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the government-wide financial statements distinguish functions of the Department of Public Works that are principally supported by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the DPW are debt service. The business-type activities of the Department of Public Works include water and sewer and soil erosion and sedimentation enforcement.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DPW, like the Primary Government St. Clair County, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The funds of the DPW can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the DPW near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the DPW near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The DPW maintains twenty-three individual governmental funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for four debt service funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. Also, individual fund financial statement data is provided by fund type elsewhere in this report.

The basic fund financial statements can be found on pages 11-16 of this report.

The DPW, because of its relationship with the Road Commission in being able to contract for administrative and operating personnel, does not require a general fund to the extent that most component units do. As a result, the DPW Revolving Fund is used as the general fund of the DPW. The DPW revolving fund is a proprietary fund and is described under the following section.

Proprietary Funds. The Department of Public Works maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The DPW uses enterprise funds to account for its Wastewater Treatment Plant and its Utility Operation and Maintenance Receiving Operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the DPW various functions. The DPW uses the DPW revolving fund to accumulate administrative charges for the enterprise funds and to administer the soil erosion and sedimentation program. Because both these services predominantly benefit business-type functions or are business-type functions, they have been included as a business-type function in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Wastewater Treatment Plant, Utility Operation and Maintenance Receiving and the DPW Revolving operations.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents combining statements referred to earlier in connection with non-major governmental fund financial statements and individual statements. These combining and individual statements can be found immediately following the notes to financial statements on pages 33-42.

FINANCIAL HIGHLIGHTS

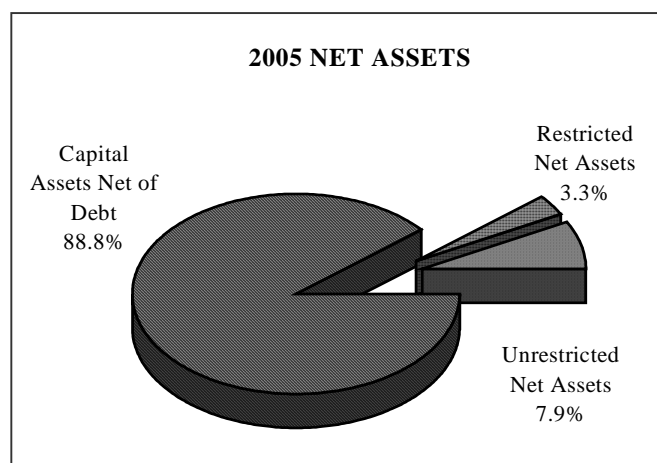
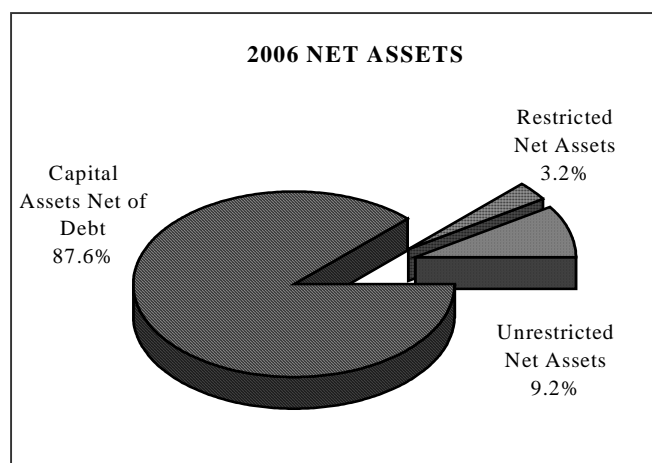
Government-Wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The net assets are separated into three major components, investment in capital assets net of debt, restricted net assets, which is the accumulation of service fees mandated for equipment replacement, and unrestricted net assets which may be used to meet the ongoing obligations to citizens and creditors. The DPW's combined net assets decreased 2% from a year ago.

The table below shows a comparison of the net assets (in thousands of dollars) as of December 31, 2006 and 2005 in a condensed format.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other unrestricted assets	\$ 752.2	\$ -	\$ 2,898.4	\$ 2,580.0	\$ 3,650.6	\$ 2,580.0
Restricted assets	36,866.5	36,514.9	666.5	687.7	37,533.0	37,202.6
Capital assets	-	-	17,539.8	18,078.3	17,539.8	18,078.3
Total Assets	<u>37,618.7</u>	<u>36,514.9</u>	<u>21,104.7</u>	<u>21,346.0</u>	<u>58,723.4</u>	<u>57,860.9</u>
Long-term liabilities	34,183.0	33,815.6	-	-	34,183.0	33,815.6
Other liabilities	3,435.7	2,699.3	1,086.6	998.4	4,522.3	3,697.7
Total Liabilities	<u>37,618.7</u>	<u>36,514.9</u>	<u>1,086.6</u>	<u>998.4</u>	<u>38,705.3</u>	<u>37,513.3</u>
Net Assets						
Invested in capital assets-net of debt	-	-	17,539.8	18,078.3	17,539.8	18,078.3
Restricted	-	-	641.5	662.7	641.5	662.7
Unrestricted	-	-	1,836.8	1,606.6	1,836.8	1,606.6
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,018.1</u>	<u>\$ 20,347.6</u>	<u>\$ 20,018.1</u>	<u>\$ 20,347.6</u>



Statement of Activities

The following schedule compares the revenues and expenses (in thousands of dollars) for the current and previous fiscal years.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Permits, interest, charges for services	\$ 1,436.8	\$ 1,314.4	\$ 4,252.3	\$ 3,982.9	\$ 5,689.1	\$ 5,297.3
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Unrestricted investment income	-	-	90.1	51.9	90.1	51.9
Total Revenues	<u>1,436.8</u>	<u>1,314.4</u>	<u>4,342.4</u>	<u>4,034.8</u>	<u>5,779.2</u>	<u>5,349.2</u>
Program Expenses						
Debt service	1,436.8	1,314.4	-	-	1,436.8	1,314.4
Water and sewer	-	-	4,521.4	4,203.6	4,521.4	4,203.6
Soil conservation	-	-	150.5	175.6	150.5	175.6
Total Expenses	<u>1,436.8</u>	<u>1,314.4</u>	<u>4,671.9</u>	<u>4,379.2</u>	<u>6,108.7</u>	<u>5,693.6</u>
Change in Net Assets	-	-	(329.5)	(344.4)	(329.5)	(344.4)
Prior Period Adjustment	-	-	-	-	-	-
Net Assets - Beginning of Year	<u>-</u>	<u>-</u>	<u>20,347.6</u>	<u>20,692.0</u>	<u>20,347.6</u>	<u>20,692.0</u>
Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,018.1</u>	<u>\$ 20,347.6</u>	<u>\$ 20,018.1</u>	<u>\$ 20,347.6</u>

Governmental activities for the DPW break even. Through the contracts with the various municipalities that have sold bonds with the DPW (County) under the provisions of Act 185, Public Acts of 1957, as amended, the municipalities are responsible for all construction and debt service costs. Therefore, any excess cash during or after completion of construction is available for the municipalities to either continue construction or apply to the debt service requirements of their contract (capital lease).

The Water and Sewer activity represents the operation of the SDSI Wastewater Treatment Plant in Algonac and the various segments of the Utility Operation and Maintenance Receiving operations. The Wastewater Treatment Plant operations, through agreements with the City of Algonac and the Townships of Clay and Ira, breaks even before depreciation. All operating costs (net of depreciation) are charged based on a formula that was designed to allocate total operating costs based on usage. The operations of the Utility Operation and Maintenance Receiving Fund are related to the collection of water and sewer charges from various participating municipalities that have contracts with the DPW related to the governmental fund activities described above, the Air Industrial Park and Corporations. The DPW then submits these collections to the municipalities that have the water and sewer plants that provide the utility services.

Government Funds Financial Analysis

Governmental Funds

As noted earlier, the DPW uses fund accounting to ensure and demonstrate compliance with financial-related legal compliance as it relates to financing under Act 185, Public Acts of 1957, as amended.

As a result the DPW maintains 16 separate debt services funds to report the capital lease proceeds from the various participating municipalities and the payment of the respective debt services on the bonds and loans.

Payments required for debt service are requested twice a year from the municipalities in correlation with the debt service payment requirements.

In order to report the receiving of the bond or loan proceeds and respective expenditures for construction of the water or sewer system, the DPW maintains separate capital projects funds. Once a project is complete the construction fund is closed and any remaining cash is transferred to the projects debt service fund. At December 31, 2006, the DPW had two projects that were active.

The governmental funds are reported on pages 11-16 of this report with the major debt service and capital projects reported separate from all other governmental funds. In the supplement section of the report all debt service and capital projects funds have been reported separately to provide additional supplementary information.

Proprietary Funds

As noted earlier, the DPW proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The DPW Revolving Fund, which reports the Soil Erosion and Sedimentation Program, reported operating income of \$15,293 in 2006, and an operating loss of \$14,280 in 2005. The Soil Erosion and Sedimentation Program continues to evaluate its fee structure and staffing needs.

As described in the Government Wide Financial Analysis section, the Waste Water Treatment Plant completed the improvements to the secondary treatment system in the spring of 2004.

The statements of net assets, revenues, expenses and changes in fund net assets and cash flows of the three proprietary funds are reported on pages 17-20 of this report.

BUDGETARY HIGHLIGHTS

The Debt Services and Capital Projects Funds are not required to report budgets. The Debt Service Funds are financed exclusively from the municipalities pursuant with a contract associated with the debt service requirements thus control is provided without the need for a formal budget. Annual formal budgetary integration is not employed for the Capital Projects Funds because effective budgetary control is achieved through a total project budget. All construction change orders are reviewed for the effect on the total construction cost and should costs related to construction exceed the proceeds available, the municipalities involved with the project pay for the additional costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of year end, the DPW had \$17,539,756 invested in capital assets (net of accumulated depreciation) as reflected in the following schedule, representing a decrease of 3% or \$538,513. There is no outstanding debt at December 31, 2006 related to the capital assets reported that is the responsibility of the DPW.

	<u>2006</u>	<u>2005</u>
Land	\$ 705,522	\$ 705,522
Site Development	179,738	193,077
Plant	6,645,584	6,857,646
Utility System	9,616,609	9,927,909
Machinery & Equipment	<u>392,303</u>	<u>394,115</u>
Total	<u>\$ 17,539,756</u>	<u>\$18,078,269</u>

Long-Term Liabilities – At the end of the current year, the DPW had bonds and loans outstanding of \$36,638,044 up from \$36,260,600 at December 31, 2005. The debt was issued to finance the construction of water and sewer systems in various townships, villages and cities in St. Clair County. The full faith and credit of the respective townships, villages and cities as well as St. Clair County is pledged.

The debt is to be paid through a capital lease agreement between the various townships, villages and cities and St. Clair County that provides for full payment of the debt and the ownership in the systems reverting to the townships, villages or cities upon final payment.

The DPW's credit rating from Standard & Poor's was an A for 2006 and 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The future of the department can best be summarized as stable. Ongoing plant maintenance efforts to replace aging building roofs have continued. Department personnel are continuing collaborative maintenance efforts with downriver communities to ensure continuous plant operations during power loss and equipment failure events.

Ongoing enhanced education programs of our soil erosion and sedimentation control and standards was continued during the year with the majority of communities and townships participating in the program. We will continue to provide education as a means to expanding general understanding and compliance of this state and federal mandated program.

The 2007 budget provides for modest increases in the cost of products used.

CONTACTING THE DEPARTMENT OF PUBLIC WORKS MANAGEMENT

This financial report is designed to provide a general overview of the Department of Public Works' finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the St. Clair County Department of Public Works, 21 Airport Drive, St. Clair, Michigan 48079.

BASIC FINANCIAL STATEMENTS

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ -	\$ 1,821,801	\$ 1,821,801
Receivables	-	117,328	117,328
Due from other governmental units	752,221	870,009	1,622,230
Advance to other component units	-	89,281	89,281
Restricted Assets -			
Prepaid expense	134,020	-	134,020
Cash and cash equivalents	359,559	641,473	1,001,032
Contracts receivable	36,372,961	25,000	36,397,961
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	-	705,522	705,522
Assets being depreciated	-	16,834,234	16,834,234
Total Assets	<u>37,618,761</u>	<u>21,104,648</u>	<u>58,723,409</u>
Liabilities:			
Payables and accrued liabilities	\$ 752,221	\$ 730,332	\$ 1,482,553
Deposits	-	356,257	356,257
Current liabilities (payable from restricted assets) -			
Bonds and revolving loans payable (current portion)	2,455,000	-	2,455,000
Interest payable	228,496	-	228,496
Non-current liabilities			
Bonds payable	33,153,044	-	33,153,044
Revolving loans	1,030,000	-	1,030,000
Total Liabilities	<u>37,618,761</u>	<u>1,086,589</u>	<u>38,705,350</u>
Net Assets:			
Investment in capital assets	-	17,539,756	17,539,756
Restricted for equipment replacement	-	641,473	641,473
Unrestricted	-	1,836,830	1,836,830
Total Net Assets	<u>\$ -</u>	<u>\$ 20,018,059</u>	<u>\$ 20,018,059</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets		
		Permits and Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Debt service	\$ 1,436,756	\$ 1,436,756	\$ -	\$ -	\$ -	\$ -
Business-Type activities:						
Water and sewer	4,521,463	4,087,114	-	-	(434,349)	(434,349)
Soil conservation	150,518	165,155	-	-	14,637	14,637
Total proprietary activities	4,671,981	4,252,269	-	-	(419,712)	(419,712)
Total	\$ 6,108,737	\$ 5,689,025	\$ -	-	(419,712)	(419,712)
General revenues:						
Unrestricted investment income				-	90,128	90,128
Change in net assets				-	(329,584)	(329,584)
Net assets at beginning of year				-	20,347,643	20,347,643
Net assets at end of year				\$ -	\$ 20,018,059	\$ 20,018,059

The accompanying notes are an integral part of these financial statements.

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

BALANCE SHEETS GOVERNMENTAL FUNDS DECEMBER 31, 2006

	Debt Service			
	China/E. China WSS III Series 1999	Ira WSS VII 2003A Refunding	Clay WSS II-A Series 2000	Algonac/Clay WSS X Series 1998
ASSETS				
Cash and cash equivalents	\$ 788	\$ 4,037	\$ 2,054	\$ 2,052
Due from other governmental units	-	-	-	-
Contracts receivable - capital lease	6,320,000	3,845,000	4,550,000	5,515,600
Total Assets	<u>\$ 6,320,788</u>	<u>\$ 3,849,037</u>	<u>\$ 4,552,054</u>	<u>\$ 5,517,652</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	788	4,037	2,054	2,052
Deferred revenue - capital lease	6,320,000	3,845,000	4,550,000	5,515,600
Total Liabilities	<u>6,320,788</u>	<u>3,849,037</u>	<u>4,552,054</u>	<u>5,517,652</u>
Fund Balances:				
Unreserved -				
Designated	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 6,320,788</u>	<u>\$ 3,849,037</u>	<u>\$ 4,552,054</u>	<u>\$ 5,517,652</u>

The accompanying notes are an integral part of these financial statements.

<u>Capital Project</u>		
<u>Ira</u>	<u>Other</u>	<u>Total</u>
<u>WSS XI</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Series 2006</u>	<u>Funds</u>	<u>Funds</u>
\$ 7,683	\$ 342,945	\$ 359,559
752,221	-	752,221
-	16,407,444	36,638,044
<u>759,904</u>	<u>16,750,389</u>	<u>37,749,824</u>

\$ 752,221	\$ -	\$ 752,221
-	239,431	248,362
-	16,407,444	36,638,044
<u>752,221</u>	<u>16,646,875</u>	<u>37,638,627</u>

<u>7,683</u>	<u>103,514</u>	<u>111,197</u>
<u>7,683</u>	<u>103,514</u>	<u>111,197</u>

<u>\$ 759,904</u>	<u>\$ 16,750,389</u>	<u>\$ 37,749,824</u>
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ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Fund Balance - Total Governmental Funds	\$	111,197
Amounts available in the Capital Projects Funds that reduce the contract receivable on the government wide statements	(111,197)
Bond premium and discounts reported as other financing sources and uses in the fund statements reported on the government wide statements and amortized		42,800
Bond issuance costs reported as debt service costs in the fund statements reported as prepaid expenses on the government wide statements and amortized		91,220
Recording of prepaid items in the government wide statements reduces the contracts receivable from the local government units		(134,020)
Liabilities that are not payable in the current period and therefore not reported in the fund statements		
Bonds payable	(36,638,044)
Accrued interest on bonds payable	(228,496)
Revenues that are deferred in the fund statements because the amounts are not available		
Lease revenue		36,638,044
Accrued interest on capital lease		228,496
Net Assets of governmental activities	\$	-

The accompanying notes are an integral part of the financial statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	Debt Service			
	China/E. China WSS III Series 1999	Ira WSS VII 2003A Refunding	Clay WSS II-A Series 2000	Algonac/Clay WSS X Series 1998
Revenues:				
Intergovernmental -				
Local	\$ -	\$ -	\$ -	\$ -
Contract Revenue -				
Principal - capital lease	370,000	240,000	325,000	355,000
Interest - capital lease	162,625	138,820	219,569	146,765
Interest	-	226	-	-
Total Revenues	<u>532,625</u>	<u>379,046</u>	<u>544,569</u>	<u>501,765</u>
Expenditures:				
Debt Service -				
Principal retirement	370,000	240,000	325,000	355,000
Interest and fiscal charges	162,625	139,046	219,569	146,765
Professional fees	-	-	-	-
Capital Outlay	-	-	-	-
Refund	-	-	-	-
Total Expenditures	<u>532,625</u>	<u>379,046</u>	<u>544,569</u>	<u>501,765</u>
Excess of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Bond Proceeds	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	-	-
Fund Balances at beginning of year	-	-	-	-
Fund Balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

<u>Capital Project</u>		
<u>Ira</u>	<u>Other</u>	<u>Total</u>
<u>WSS XI</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Series 2006</u>	<u>Funds</u>	<u>Funds</u>
\$ 5,000	\$ -	\$ 5,000
-	1,505,000	2,795,000
-	579,158	1,246,937
2,683	5,371	8,280
<u>7,683</u>	<u>2,089,529</u>	<u>4,055,217</u>
-	1,505,000	2,795,000
-	580,180	1,248,185
-	1,000	1,000
3,172,944	-	3,172,944
-	200,986	200,986
<u>3,172,944</u>	<u>2,287,166</u>	<u>7,418,115</u>
(3,165,261)	(197,637)	(3,362,898)
<u>3,172,944</u>	<u>-</u>	<u>3,172,944</u>
7,683	(197,637)	(189,954)
-	301,151	301,151
<u>\$ 7,683</u>	<u>\$ 103,514</u>	<u>\$ 111,197</u>

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds	\$ (189,954)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures, however, in the statement of activities these costs are reported as due from other governmental units involved since the capital assets have been sold under a capital lease	3,172,944
Payment of capital lease interest from available cash reduces due to governmental units in the statement of net assets	8,280
Repayment of bond principal reported as expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets	2,795,000
Interest reported in the governmental funds as it is paid but in the statement of activities as it is incurred	25,792
Revenues reported in the governmental funds when received, however in the statement of activities when earned	
Capital lease principle	(2,795,000)
Capital lease interest	(25,792)
Interest revenues reported in the governmental funds as revenues, however reduce the contracts receivable in the statement of activities	(8,280)
The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.	
Bond proceeds	(3,172,944)
Amortization of bond premium and discount	4,280
Amortization of prepaid expense	9,122
Recording the amortization of prepaid in the government wide statements reduces the intergovernmental - local revenue	(13,402)
Change in net assets of governmental activities	<u><u>\$ (189,954)</u></u>

The accompanying notes are an integral part of the financial statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006

	SDS I Waste Water Treatment Plant	DPW Revolving	Utility Operation & Maintenance Receiving	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 659,047	\$ 268,813	\$ 1,535,414	\$ 2,463,274
Accounts receivable	-	-	117,328	117,328
Due from other governmental units	270,080	-	624,929	895,009
Due from other funds	-	37,636	-	37,636
Total Current Assets	<u>929,127</u>	<u>306,449</u>	<u>2,277,671</u>	<u>3,513,247</u>
Property, Plant and Equipment:				
Property, plant, utility system, and equipment	27,731,004	20,935	3,635,330	31,387,269
Less - accumulated depreciation	<u>(12,436,453)</u>	<u>(13,233)</u>	<u>(1,397,827)</u>	<u>(13,847,513)</u>
Total Property, Plant and Equipment net of accumulated depreciation	<u>15,294,551</u>	<u>7,702</u>	<u>2,237,503</u>	<u>17,539,756</u>
Other Assets:				
Advance to other component units	-	-	89,281	89,281
Total Other Assets	<u>-</u>	<u>-</u>	<u>89,281</u>	<u>89,281</u>
Total Assets	<u>\$ 16,223,678</u>	<u>\$ 314,151</u>	<u>\$ 4,604,455</u>	<u>\$ 21,142,284</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 38,067	\$ 13,529	\$ 678,736	\$ 730,332
Due to other funds	24,353	-	13,283	37,636
Advances and deposits	115,416	240,841	-	356,257
Total Current Liabilities	<u>177,836</u>	<u>254,370</u>	<u>692,019</u>	<u>1,124,225</u>
NET ASSETS				
Restricted for-				
Equipment replacement	641,473	-	-	641,473
Unrestricted	15,404,369	59,781	3,912,436	19,376,586
Total Net Assets	<u>\$ 16,045,842</u>	<u>\$ 59,781</u>	<u>\$ 3,912,436</u>	<u>\$ 20,018,059</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	SDS I Waste Water Treatment Plant	DPW Revolving	Utility Operation & Maintenance Receiving	Total
Operating Revenues:				
Charges for services	\$ 652,040	\$ 15,825	\$ 3,335,074	\$ 4,002,939
Licenses and permits	-	149,330	-	149,330
Total Operating Revenues	<u>652,040</u>	<u>165,155</u>	<u>3,335,074</u>	<u>4,152,269</u>
Operating Expenses:				
Personal services (contracted)	311,500	132,685	19,068	463,253
Repairs and maintenance	31,138	1,908	45,516	78,562
Supplies	63,978	825	-	64,803
Other services	245,424	11,889	3,221,207	3,478,520
Depreciation	525,245	3,211	58,387	586,843
Total Operating Expenses	<u>1,177,285</u>	<u>150,518</u>	<u>3,344,178</u>	<u>4,671,981</u>
Operating income (loss)	<u>(525,245)</u>	<u>14,637</u>	<u>(9,104)</u>	<u>(519,712)</u>
Non-Operating Revenues (Expenses):				
Service fees for equipment replacement	100,000	-	-	100,000
Interest earned	27,086	656	62,386	90,128
Total Non-Operating Revenues (Expenses)	<u>127,086</u>	<u>656</u>	<u>62,386</u>	<u>190,128</u>
Operating income (loss) before capital contributions	(398,159)	15,293	53,282	(329,584)
Net Assets at beginning of year	<u>16,444,001</u>	<u>44,488</u>	<u>3,859,154</u>	<u>20,347,643</u>
Net Assets at end of year	<u>\$ 16,045,842</u>	<u>\$ 59,781</u>	<u>\$ 3,912,436</u>	<u>\$ 20,018,059</u>

The accompanying notes are an integral part of these financial statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

	SDS I Waste Water Treatment Plant	DPW Revolving	Utility Operation & Maintenance Receiving	Total
Cash Flow From Operating Activities:				
Receipts from customers and users	\$ 617,449	\$ 207,455	\$ 3,358,979	\$ 4,183,883
Cash received from interfund services	-	37,636	-	37,636
Cash payments for other component unit services	(334,901)	(155,684)	(19,410)	(509,995)
Cash payments for interfund services	(14,113)	(15,825)	(7,698)	(37,636)
Cash payments to suppliers and service providers	(307,397)	(40,332)	(3,181,484)	(3,529,213)
Net Cash Provided by Operating Activities	(38,962)	33,250	150,387	144,675
Cash Flow From Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(48,330)	-	-	(48,330)
Capital contributions	-	-	-	-
Restricted revenue received	100,000	-	-	100,000
Net Cash Provided (Used) by Capital and Related Financing Activities	51,670	-	-	51,670
Cash Flow From Investing Activities:				
Interest earned	27,086	656	62,386	90,128
Net Increase in Cash and Cash Equivalents	39,794	33,906	212,773	286,473
Cash and Cash Equivalents at beginning of year	619,253	234,907	1,322,641	2,176,801
Cash and Cash Equivalents at end of year	<u>\$ 659,047</u>	<u>\$ 268,813</u>	<u>\$ 1,535,414</u>	<u>\$ 2,463,274</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss) for the year	\$(525,245)	\$ 14,637	\$(9,104)	\$(519,712)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -				
Depreciation	525,245	3,211	58,387	586,843
Changes in assets and liabilities -				
Receivables	-	-	13,242	13,242
Due from other governmental units	(34,591)	-	10,663	(23,928)
Due from other funds	-	(15,825)	5,585	(10,240)
Accounts payable	10,305	11,926	676,906	699,137
Due to primary government	(168)	-	-	(168)
Due to other governmental units	(1,347)	-	(604,950)	(606,297)
Due to other funds	10,240	-	-	10,240
Due to other component units	(23,401)	(22,999)	(342)	(46,742)
Advances and deposits	-	42,300	-	42,300
Net Cash Provided by Operating Activities	<u>\$(38,962)</u>	<u>\$ 33,250</u>	<u>\$ 150,387</u>	<u>\$ 144,675</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the St. Clair County Department of Public Works (DPW), a component unit of the County of St. Clair, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Department of Public Works Operations –

The St. Clair County Department of Public Works (DPW) is a component unit of St. Clair County, Michigan, and operates under an appointed Board which consists of three (3) members, who establish policies and review operations of the DPW for the County Board of Commissioners. The DPW has the responsibility of administering the various Public Works Projects Construction and Debt Service Funds under the provisions of Act 185, Public Acts of 1957, as amended, as well as the DPW Revolving, Utility Operation and Maintenance Receiving, and Waste Water Treatment Plant Funds. When the DPW is included in the County's Comprehensive Annual Report in compliance with GASB Statement 14, the financial statements are included as a discretely presented component unit.

B. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the activities of the Department of Public Works. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from the services provided by a given function or segment and 2) contributions that are restricted to meeting the obligations of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The DPW reports the following major governmental funds:

- I. The debt service fund (WSS III Series 1999) was established to account for the debt service requirements on the environmental quality bonds sold to finance the construction of Water Supply System No. III Water Plant for China and East China Townships.
- II. The debt service fund (WSS VII 2003A Refunding) was established to account for the debt service requirements on the bonds sold to refinance the construction of the 1994 extension of Water Supply System VII in Ira Township.
- III. The debt service fund (WSS IIA Series 2000) was established to account for the debt service requirements on the bonds sold to finance the construction of the Harsens Island extension of Water Supply System No. IIA.
- IV. The debt service fund (WSS X Series 1998) was established to account for the debt service requirements on the bonds sold to refinance the construction of Water Supply System No. X in the City of Algonac and Clay Township.
- V. The Capital Project Fund (WSS XI Series 2006) was established to account for construction of Water Supply System No. XI in Ira Township.

The DPW reports the following major proprietary funds:

- I. The revolving fund (general fund) accounts for the administration of the various DPW projects and Soil Erosion and Sedimentation Enforcement and all financial resources of the DPW not required to be accounted for in another fund.
- II. The Waste Water Treatment Plant fund accounts for the operations of the SDSI Wastewater Treatment Plant that provides sewage collection and treatment for residents in Clay and Ira Townships and City of Algonac.
- III. The utility operations and maintenance receiving fund accounts for the collection and payment of water and sewer service fees for various governmental units and corporations and for the water and sewer operations of the St. Clair County Air Industrial Park.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department of Public Works has elected not to follow subsequent private-sector guidance.

D. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents – The Department of Public Works' cash and cash equivalents represent cash on hand, demand deposits and pooled investment funds recorded at cost, which approximates fair value.

Capital Assets – Capital assets which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the DPW as assets with an estimated useful life in excess of one year and a purchase price greater than \$1,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Plant	50 years
Sewer mains and extensions	60 years
Machinery and equipment	5 – 20 years
Site Development	20 – 50 years

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Administrative and Operational Staffing – The DPW does not have an administrative building or employees of its own. All administration is contracted through the St. Clair County Road Commission, a component unit of St. Clair County, Michigan. The employees that operate the Wastewater Treatment Plant are also employees of the Road Commission. The DPW reimburses the Road Commission for all wages and fringes at cost as well as indirect costs related to the services provided.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Department of Public Works has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The governmental fund balance sheet includes a reconciliation between *fund balances of governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. This reconciliation is reported on page 13 of the basic financial statements.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances of total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. This reconciliation is reported on page 16 of the basic financial statements.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

DPW Project Administration

As administrator of construction projects and debt service funds under the provision of Act 185, Public Acts of 1957, as amended, the Department of Public Works contracts with financial consultants and bond council whenever bonds are sold to help assure compliance with the State and Federal requirements relating to bond sales.

As administrator and operator of the Wastewater Treatment Plant, the Department of Public Works implements those requirements mandated by the various regulating agencies so that the plant is in operational compliance.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS:

The following is a summary of the financial statement presentation of Deposits and Investments at December 31, 2006:

	Financial Reporting – Cash and Equivalents		
	Total	Unrestricted	Restricted
Deposits	\$ 267,663	\$ 267,663	\$ -
Investments	2,554,995	1,553,963	1,001,032
	<u>\$ 2,822,658</u>	<u>\$ 1,821,626</u>	<u>\$ 1,001,032</u>

Also included in the caption cash and cash equivalents is \$175 in petty cash.

Deposits -

As a component unit of St. Clair County, all the DPW cash and cash equivalents are a part of the accounts of St. Clair County and maintained at banking institutions insured by federal depository insurance.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

Custodial Credit Risk – Deposits – Custodial credit risk for deposits is the risk that in the event of a bank failure, the DPW's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the DPW, as of December 31, 2006, the book value of the DPW's deposits was \$268,663 with a corresponding bank balance of \$273,333. However, since the amount is part of the County total cash, it cannot be determined to what extent the FDIC insurance applies to the DPW balance.

Investments –

Credit Risk – Investment - The DPW at December 31, 2006 held \$2,553,995 in financial institution investment pool funds that are not evidenced by securities that exist in physical or book entry form. The investment pool funds are registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pools is the same as the value of the investment pool shares. Investment pool funds invest primarily in U.S. Agencies, repurchase agreements and commercial papers. The investment trusts have been rated Aaa by Moody's and have average days to maturity of 33 days.

The investment pools have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pools are recorded at cost which approximates fair value.

Custodial Credit Risk – Investments – is the risk that, in the event of the failure of the counterparty, the DPW (County) will not be able to recover the value of its investments that are in possession of another party.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 – DEPOSITS AND INVESTMENTS – (cont'd):

The securities of the pool are safe kept with a third party selected by the counterparty. However, the pool's securities are held in trust for the participants of the fund that are not available to the counterparty if the counterparty should happen to fail. We believe this arrangement satisfies the DPW's (County) investment policy safekeeping requirement.

NOTE 5 – CAPITAL LEASES RECEIVABLE:

The DPW (County) has entered into a number of capital lease agreements with various municipalities within the County. Under the agreements, the DPW (County) issued bonds or obtained loans that were used for the construction of water and/or sewage disposal systems. The municipalities agreed to pay the DPW (County) the amount necessary to pay the principal, interest and paying agent fees as they come due. Upon final payment of the respective bond issue or loans, ownership of the system will revert to the respective municipality. The future minimum lease payments include other receivables of \$3,172,444 for construction in progress for Water Supply System No. XI. The future payments could not be reasonably measured because the final draw was not made as of December 31, 2006.

The future minimum lease payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,455,000	\$ 1,187,584
2008	2,580,000	1,115,421
2009	2,695,000	1,032,303
2010	2,680,000	945,389
2011	2,755,000	850,690
2012-2015	12,445,000	2,940,107
2016-2020	7,405,600	909,887
2021-2023	<u>450,000</u>	<u>20,820</u>
	33,465,600	9,002,201
Other receivables	<u>3,172,444</u>	<u>-</u>
Total	<u>\$ 36,638,044</u>	<u>\$ 9,002,201</u>

The aggregate future capital lease payments necessary for the retirement of the debt principal and accrued interest payable at December 31, 2006 have been reported net of available cash as a capital lease receivable.

Principal due	\$ 36,638,044
Accrued interest	<u>228,496</u>
	36,866,540
Less -	
Cash available after	
current liabilities	(359,559)
Prepaid expense	<u>(134,020)</u>
	<u>\$ 36,372,961</u>

Governmental funds report deferred revenue in connection with receivables that are not considered to be available. On this basis, the principle amount of \$36,638,044 is deferred on the fund statements. The revenue is recognized on the government-wide statements.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Business type activities:				
Capital assets, not being depreciated –				
Land	\$ 705,522	\$ -	\$ -	\$ 705,522
Capital assets being depreciated –				
Site Development	288,867	-	-	288,867
Plant	10,603,119	-	-	10,603,119
Utility System	18,678,054	-	-	18,678,054
Machinery and equipment	<u>1,063,377</u>	<u>48,330</u>	-	<u>1,111,707</u>
	<u>30,633,417</u>	<u>48,330</u>	-	<u>30,681,747</u>
Less – accumulated depreciation for –				
Site Development	95,790	13,339	-	109,129
Plant	3,745,473	212,062	-	3,957,535
Utility System	8,750,145	311,300	-	9,061,445
Machinery and equipment	<u>669,262</u>	<u>50,142</u>	-	<u>719,404</u>
	<u>13,260,670</u>	<u>586,843</u>	-	<u>13,847,513</u>
Total Capital Assets, being depreciated, net	<u>17,372,747</u>	(538,513)	-	<u>16,834,234</u>
Business type activities capital assets, net	<u>\$ 18,078,269</u>	<u>\$(538,513)</u>	<u>\$ -</u>	<u>\$17,539,756</u>

Depreciation expense was charged to function/programs as follows:

Business type activities – Water and Sewer	<u>\$ 586,843</u>
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ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7 – INTERFUND TRANSACTIONS:

Due from and due to other funds reported on the Statement of Net Assets for the proprietary funds reflect amounts due from or due to a particular proprietary fund by another proprietary fund of the Department of Public Works. These amounts include any short-term obligations on open accounts and not current portions of long-term loans.

The summary of these balances by fund at December 31, 2006, is listed as follows:

Fund	<u>Due From</u>	<u>Due To</u>
DPW Revolving –		
Utility Operation and Maintenance Receiving \$	13,283	\$ -
SDS I Wastewater Treatment Plant	24,353	-
Utility Operation and Maintenance Receiving –		
DPW Revolving	-	13,283
SDSI Wastewater Treatment Plant –		
DPW Revolving	<u>-</u>	<u>24,353</u>
	<u>\$ 37,636</u>	<u>\$ 37,636</u>

The advance to other component units reported on the Statement of Net Assets for the Proprietary Funds in the amount of \$89,281 at December 31, 2006, represents funds provided the St. Clair County International Airport Commission, a component unit of St. Clair County for development of the Air Industrial Park. The advance is to be paid back once revenue from rentals is sufficient to provide the available funds or specifically from the proceeds derived from the sale of a building in the Air Industrial Park owned by the International Airport Commission.

NOTE 8 – LONG-TERM DEBT:

The following is a summary of changes in the long-term debt (including current portions) for the year ended December 31, 2006:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2006</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 22,330,000	\$ -	\$ 1,900,000	\$ 20,430,000	\$ 1,540,000
Drinking Water Revolving Loans	12,560,600	3,172,444	725,000	15,008,044	745,000
Revolving Loans	<u>1,370,000</u>	<u>-</u>	<u>170,000</u>	<u>1,200,000</u>	<u>170,000</u>
	<u>\$ 36,260,600</u>	<u>\$3,172,444</u>	<u>\$ 2,795,000</u>	<u>\$ 36,638,044</u>	<u>\$ 2,455,000</u>
Deferred amounts for:					
Issuance costs	100,342	-	9,122	91,220	-
Issuance discounts	(2,134)	-	(194)	(1,940)	-
Issuance premiums	<u>49,214</u>	<u>-</u>	<u>4,474</u>	<u>44,740</u>	<u>-</u>
	<u>\$ 147,422</u>	<u>\$ -</u>	<u>\$ 13,402</u>	<u>\$ 134,020</u>	<u>\$ -</u>

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – LONG-TERM DEBT – (cont'd):

General Obligation Bonds

General Obligation Bonds have been issued by the County to construct several water supply and sewage disposal systems for various townships, villages and cities in the County. The County in turn is leasing the systems to the various municipalities who operate, maintain and manage the systems. The bonds were sold with the full faith and credit of the Townships, Villages, Cities, and County pursuant to Act 185, Public Acts of Michigan, 1957, as amended. The original amount of the general obligation bonds issued in prior years with balances at December 31 was \$29,740,000.

The principle and interest on the bonds are to be paid out of money received from the various municipalities by the Board of Public Works pursuant to the lease agreements. Upon final payment of the bond issues, ownership of the systems revert to the Townships, Villages or Cities. General Obligation Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	
Governmental activities	3.375 – 7.10	\$ 11,195,000
Governmental activities – refunding	1.50 – 4.90	<u>9,235,000</u>
		<u>\$ 20,430,000</u>

On July 1, 1989, St. Clair County through the Department of Public Works issued \$2,365,000 in SDS No. III Refunding General Obligation Bonds to advance refund the 1985 SDS No. III General Obligation Bonds totaling \$2,150,000.

On March 1, 1999, St. Clair County through the Department of Public Works issued \$1,485,000 in WSS No. IIA Refunding General Obligation Bonds to partially advance refund the 1991 WSS No. II General Obligation Bonds totaling \$1,565,000.

On May 28, 2003, St. Clair County through the Department of Public Works issued \$4,520,000 and \$2,045,000 in WSS VII Refunding Series 2003A and 2003B Bonds, respectively to advance refund the 1994 WSSVII General Obligation Bonds and to partially advance refund the 1995 WSSVII General Obligation Bonds, respectively.

The proceeds from the refunding issues, after payment of issuance costs, were placed in special escrow accounts and invested in securities of the U.S. Government and its agencies. The maturities of these investments coincide with the principal and interest payments on the extinguished debts and are sufficient to pay all principal and interest when due. Accordingly, the trust account assets and liabilities for the defeased bonds outstanding are not included in the DPW Financial Statements. The bonds of \$165,000, \$1,040,000, \$4,025,000, and \$1,765,000, respectively were considered defeased.

On February 10, 2004, St. Clair County through the Department of Public Works issued \$2,740,000 WSSIX 2004 Refunding Bonds to partially advance refund the WSSIX Series 1996 and Series 1998 Bonds in the amounts of \$4,700,000 and \$850,000 respectively.

On May 18, 2004, St. Clair County through the Department of Public Work issued \$470,000 SDSX 2004 Refunding Bonds to advance refund SDXX series 1991B in the amount of \$465,000.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – LONG-TERM DEBT – (cont'd):

Drinking Water Revolving Loans

Department of Environmental Quality Bonds have been sold through the State of Michigan Drinking Water Revolving Fund to construct water supply systems for three (3) Townships and a City in the County. The County in turn is leasing the systems to the townships and city who operate, maintain and manage the systems. The full faith and credit of the Townships, City and County are pledged for the payments to the Drinking Water Revolving Fund. The original amount of the drinking water revolving fund loans drawn in prior years was \$16,255,600. In 2006, there was a draw of \$3,172,444 for the construction of Water Supply System No. XI Series 2006 Bonds. As of December 31, 2006, the construction of WSS No. XI (Ira Township) was not completed.

The principle and interest on the bonds are to be paid out of money received from the various municipalities by the Board of Public Works of the County pursuant to the lease agreements. Upon final payment of the loans, ownerships of the systems revert to the Townships or City. Drinking Water Revolving Loans outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	
Governmental activities	2.5%	\$ 15,008,044

State of Michigan Clean Water Revolving Loans

State of Michigan Clean Water Revolving Loans have been obtained to construct sewage disposal systems of a Village and City in the County. The County in turn is leasing the systems to the municipalities who operate, maintain and manage the systems. The loans are backed by the full faith and credit of the Village, City and County pursuant to Act 185, Public Act of Michigan 1957, as amended. The original amount of the State of Michigan Clean Water Revolving Loans issued in prior years was \$3,236,961.

The principal and interest are to be paid out of money received from the Village and City by the Board of Public Works pursuant to the lease agreement. Upon final payment of the loans, ownership of the systems revert to the Village or City. State of Michigan Clean Water Revolving Loans currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	
Governmental activities	2.00%	\$ 1,200,00

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – LONG-TERM DEBT – (cont’d):

Annual debt service requirements to maturities for general obligation bonds and loans are as follows:

Year Ending December 31,	General Obligation Bonds		Drinking Water Revolving Loans		Clean Water Revolving Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,540,000	\$ 832,443	\$ 745,000	\$ 331,141	\$ 170,000	\$ 24,000
2008	1,630,000	777,493	770,000	317,328	180,000	20,600
2009	1,730,000	717,288	785,000	298,015	180,000	17,000
2010	1,695,000	653,723	800,000	278,266	185,000	13,400
2011	1,745,000	582,850	820,000	258,140	190,000	9,700
2012-2016	7,710,000	1,936,813	4,440,000	994,393	295,000	8,900
2017-2021	3,930,000	508,842	3,475,600	401,046	-	-
2022-2023	<u>450,000</u>	<u>20,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$20,430,000</u>	<u>\$ 6,030,272</u>	<u>\$11,835,600</u>	<u>\$2,878,329</u>	<u>\$ 1,200,000</u>	<u>\$ 93,600</u>

Purpose

Interest Rate
(Percent)

Governmental Activities (G.O. Bonds) -

Water Supply System No. VI Series 1990 Bonds (Kimball Township)	7.00-7.10	\$ 165,000
Sewage Disposal System No. X – Series 2000 Bonds (Village of Capac)	5.00-5.55	635,000
Water Supply System No. IX – Series 2000 Bonds (Burtchville Township)	4.50-5.25	1,800,000
Sewage Disposal System No. I – Series 1999 Bonds (City of Algonac/Clay and Ira Townships)	5.00-5.125	1,330,000
Water Supply System No. II-A Series 2001 Bonds (Clay Township)	4.00-5.00	4,550,000
Sewage Disposal System No. I – Series 2003 Bonds (City of Algonac/Clay and Ira Townships)	3.375-4.60	<u>2,715,000</u>
		<u>\$ 11,195,000</u>

Governmental Activities (G.O. Refunding) -

Water Supply System No. IIA – 1999 Refunding Bonds (Clay Township)	3.95-4.90	\$ 995,000
Water Supply System VII – 2003 A Refunding Bonds (Ira Township)	2.25-4.125	3,845,000
Water Supply System VII – 2003 B Refunding Bonds (Ira Township)	2.50-3.80	1,700,000
Sewage Disposal System X – 2004 Refunding Bonds (Village of Capac)	2.50-3.75	355,000
Water Supply System IX – 2004 Refunding Bonds (Burtchville Township)	1.50-3.60	<u>2,340,000</u>
		<u>\$ 9,235,000</u>

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – LONG-TERM DEBT – (cont’d):

Governmental Activities (Revolving Loans) –	<u>Interest Rate (Percent)</u>	
Water Supply System X Series 1999 (City of Algonac/Clay Township)	2.5	\$ 5,515,600
Water Supply System III Series 1999 (Charter Townships of East China and China)	2.5	6,320,000
Water Supply System XI Series 2006 (Ira Township)	N/A	3,172,444
Sewage Disposal System XI Series 1993 (City of Yale)	2.0	985,000
Sewage Disposal System No. X Series 1999 (Village of Capac)	2.0	<u>215,000</u>
		<u>\$ 16,208,044</u>

NOTE 9 - DEPOSITS:

The deposit balance of \$356,257 represents money deposited by Clay and Ira Townships and the City of Algonac to provide operating cash for the Wastewater Treatment Plant and money deposited by individuals and corporations, to be held in escrow during the inspection of property under Soil Erosion and Sedimentation requirements. The deposit balance is summarized as follows:

Operational Deposits –	
Clay Township	\$ 42,080
Ira Township	30,520
City of Algonac	<u>42,816</u>
	115,416
Escrow Deposits –	
Soil Erosion and Sedimentation	192,041
Second Year	<u>48,800</u>
	240,841
	<u>\$ 356,257</u>

NOTE 10 – RISK MANAGEMENT:

The Department of Public Works, through the St. Clair County Road Commission, is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

ST. CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 – RISK MANAGEMENT – (cont'd):

In conjunction with the St. Clair County Road Commission, the Department of Public Works pays an annual premium to the Pool for property (buildings and grounds) coverage and errors or omissions liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Department of Public Works' commercial insurance for general liability and automobile liability is covered in conjunction with the primary government, St. Clair County, Michigan, which is a voluntary member of the Michigan Risk Management Authority.

NOTE 11 – DESIGNATED FUND BALANCE:

In the fund financial statements, designation of fund balance in governmental funds represents tentative management plans that are subject to change. The designated fund balance in the Capital Projects Funds represents funds available after current liabilities related to the construction have been met that would have been received either through bond or loan proceeds, interest on investments or municipal contributions. The board designates this amount to either be used to complete the construction project or to be used for debt service on the corresponding bond or loan payable.

SUPPLEMENTARY INFORMATION

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

COMBINING BALANCE SHEET - NON-MAJOR FUNDS

DECEMBER 31, 2006

	Debt Service			
	St. Clair SDS V Series 1993	Ira WSS VII 2003B Refunding	Ira WSS XI Series 2006	Clay WSS II-A 1999 Refunding
ASSETS				
Cash and cash equivalents	\$ 3	\$ 4,270	\$ -	\$ 433
Contracts receivable - capital lease	-	1,700,000	3,172,444	995,000
Total Assets	<u>\$ 3</u>	<u>\$ 1,704,270</u>	<u>\$ 3,172,444</u>	<u>\$ 995,433</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other governmental units	\$ 3	\$ 4,270	\$ -	\$ 433
Deferred revenue	-	1,700,000	3,172,444	995,000
Total Liabilities	<u>3</u>	<u>1,704,270</u>	<u>3,172,444</u>	<u>995,433</u>
Fund Balances:				
Unreserved - Designated	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 3</u>	<u>\$ 1,704,270</u>	<u>\$ 3,172,444</u>	<u>\$ 995,433</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:				
Contract revenue -				
Principal - capital lease	\$ 390,000	\$ 160,000	\$ -	\$ 90,000
Interest - capital lease	26,887	58,103	-	48,728
Interest earned	310	225	-	-
Total Revenues	<u>417,197</u>	<u>218,328</u>	<u>-</u>	<u>138,728</u>
Expenditures:				
Debt service -				
Principal retirement	390,000	160,000	-	90,000
Interest and fiscal charges	27,197	58,328	-	48,728
Professional fees	-	-	-	-
Refund	-	-	-	-
Total Expenditures	<u>417,197</u>	<u>218,328</u>	<u>-</u>	<u>138,728</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service							
Kimball WSS VI Series 1990	Capac SDS X 2004 Refunding	Capac SDS X Series 2000	Yale SDS XI Series 1993	Burtchville WSS IX Series 2000	Burtchville WSS IX 2004 Refunding	Algonac/Clay/Ira	
						SDS Series 1999	SDS I Series 2003
\$ 1,156 165,000	\$ 995 570,000	\$ 96,778 635,000	\$ 7,326 985,000	\$ 22,208 1,800,000	\$ 8,306 2,340,000	\$ 1,587 1,330,000	\$ 96,369 2,715,000
<u>\$ 166,156</u>	<u>\$ 570,995</u>	<u>\$ 731,778</u>	<u>\$ 992,326</u>	<u>\$ 1,822,208</u>	<u>\$ 2,348,306</u>	<u>\$ 1,331,587</u>	<u>\$ 2,811,369</u>
\$ 1,156 165,000	\$ 995 570,000	\$ 96,778 635,000	\$ 7,326 985,000	\$ 22,208 1,800,000	\$ 8,306 2,340,000	\$ 1,587 1,330,000	\$ 96,369 2,715,000
<u>166,156</u>	<u>570,995</u>	<u>731,778</u>	<u>992,326</u>	<u>1,822,208</u>	<u>2,348,306</u>	<u>1,331,587</u>	<u>2,811,369</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 166,156</u>	<u>\$ 570,995</u>	<u>\$ 731,778</u>	<u>\$ 992,326</u>	<u>\$ 1,822,208</u>	<u>\$ 2,348,306</u>	<u>\$ 1,331,587</u>	<u>\$ 2,811,369</u>
\$ 55,000 13,885 -	\$ 95,000 17,720 25	\$ 30,000 34,840 -	\$ 130,000 22,300 -	\$ 75,000 94,938 237	\$ 190,000 79,815 -	\$ 190,000 72,113 -	\$ 100,000 109,829 225
<u>68,885</u>	<u>112,745</u>	<u>64,840</u>	<u>152,300</u>	<u>170,175</u>	<u>269,815</u>	<u>262,113</u>	<u>210,054</u>
55,000 13,885 - -	95,000 17,745 - -	30,000 34,840 - -	130,000 22,300 - -	75,000 95,175 - -	190,000 79,815 - -	190,000 72,113 - -	100,000 110,054 - -
<u>68,885</u>	<u>112,745</u>	<u>64,840</u>	<u>152,300</u>	<u>170,175</u>	<u>269,815</u>	<u>262,113</u>	<u>210,054</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

COMBINING BALANCE SHEET - NON-MAJOR FUNDS
DECEMBER 31, 2006

	Capital Projects				Total
	Capac SDS X	Clay WSS IIA	Burtchville WSS IX	Algonac Clay/Ira SDS I 2003	
ASSETS					
Cash and cash equivalents	\$ -	\$ 103,514	\$ -	\$ -	\$ 342,945
Contracts receivable	-	-	-	-	16,407,444
Total Assets	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,750,389</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governmental units	\$ -	\$ -	\$ -	\$ -	\$ 239,431
Deferred revenue	-	-	-	-	16,407,444
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,646,875</u>
Fund Balances:					
Unreserved - Designated	-	103,514	-	-	103,514
Total Fund Balances	<u>-</u>	<u>103,514</u>	<u>-</u>	<u>-</u>	<u>103,514</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,750,389</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NON-MAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:					
Contract Revenue -					
Principal - capital lease	\$ -	\$ -	\$ -	\$ -	\$ 1,505,000
Interest - capital lease	-	-	-	-	579,158
Interest earned	-	4,349	-	-	5,371
Total Revenues	<u>-</u>	<u>4,349</u>	<u>-</u>	<u>-</u>	<u>2,089,529</u>
Expenditures:					
Debt Service -					
Principal retirement	-	-	-	-	1,505,000
Interest and fiscal charges	-	-	-	-	580,180
Professional fees	-	1,000	-	-	1,000
Refund	92,954	-	21,589	86,443	200,986
Total Expenditures	<u>92,954</u>	<u>1,000</u>	<u>21,589</u>	<u>86,443</u>	<u>2,287,166</u>
Excess of revenues over (under) expenditures	<u>(92,954)</u>	<u>3,349</u>	<u>(21,589)</u>	<u>(86,443)</u>	<u>(197,637)</u>
Fund Balances at beginning of year	<u>92,954</u>	<u>100,165</u>	<u>21,589</u>	<u>86,443</u>	<u>301,151</u>
Fund Balances at end of year	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,514</u>

Concluded

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

BALANCE SHEETS - DEBT SERVICE FUNDS

DECEMBER 31, 2006

	China/E. China WSS III Series 1999	St. Clair SDS V Series 1993	Ira WSS VII 2003A Refunding	Ira WSS VII 2003B Refunding
ASSETS				
Cash and cash equivalents	\$ 788	\$ 3	\$ 4,037	\$ 4,270
Contracts receivable - capital lease	6,320,000	-	3,845,000	1,700,000
Total Assets	<u>\$ 6,320,788</u>	<u>\$ 3</u>	<u>\$ 3,849,037</u>	<u>\$ 1,704,270</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Due to other governmental units	\$ 788	\$ 3	\$ 4,037	\$ 4,270
Deferred revenue - capital lease	6,320,000	-	3,845,000	1,700,000
Total Liabilities	<u>6,320,788</u>	<u>3</u>	<u>3,849,037</u>	<u>1,704,270</u>
Fund Balances:				
Unreserved -				
Designated	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 6,320,788</u>	<u>\$ 3</u>	<u>\$ 3,849,037</u>	<u>\$ 1,704,270</u>

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - DEBT SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:				
Contract revenue -				
Principal - capital lease	\$ 370,000	\$ 390,000	\$ 240,000	\$ 160,000
Interest - capital lease	162,625	26,887	138,820	58,103
Interest	-	310	226	225
Total Revenues	<u>532,625</u>	<u>417,197</u>	<u>379,046</u>	<u>218,328</u>
Expenditures:				
Debt service -				
Principal retirement	370,000	390,000	240,000	160,000
Interest and fiscal charges	162,625	27,197	139,046	58,328
Total Expenditures	<u>532,625</u>	<u>417,197</u>	<u>379,046</u>	<u>218,328</u>
Excess of revenues over (under) expenditures	-	-	-	-
Fund Balances at beginning of year	-	-	-	-
Fund Balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Ira WSS XI Series 2006</u>	<u>Clay WSS II-A 1999 Refunding</u>	<u>Clay WSS II-A Series 2000</u>	<u>Kimball WSS VI Series 1990</u>	<u>Capac SDS X 2004 Refunding</u>	<u>Capac SDS X Series 2000</u>	<u>Yale SDS XI Series 1993</u>
\$ - 3,172,444	\$ 433 995,000	\$ 2,054 4,550,000	\$ 1,156 165,000	\$ 995 570,000	\$ 96,778 635,000	\$ 7,326 985,000
<u>\$ 3,172,444</u>	<u>\$ 995,433</u>	<u>\$ 4,552,054</u>	<u>\$ 166,156</u>	<u>\$ 570,995</u>	<u>\$ 731,778</u>	<u>\$ 992,326</u>
\$ - 3,172,444 3,172,444	\$ 433 995,000 995,433	\$ 2,054 4,550,000 4,552,054	\$ 1,156 165,000 166,156	\$ 995 570,000 570,995	\$ 96,778 635,000 731,778	\$ 7,326 985,000 992,326
- -	- -	- -	- -	- -	- -	- -
<u>\$ 3,172,444</u>	<u>\$ 995,433</u>	<u>\$ 4,552,054</u>	<u>\$ 166,156</u>	<u>\$ 570,995</u>	<u>\$ 731,778</u>	<u>\$ 992,326</u>
\$ - - - -	\$ 90,000 48,728 - 138,728	\$ 325,000 219,569 - 544,569	\$ 55,000 13,885 - 68,885	\$ 95,000 17,720 25 112,745	\$ 30,000 34,840 - 64,840	\$ 130,000 22,300 - 152,300
- - -	90,000 48,728 138,728	325,000 219,569 544,569	55,000 13,885 68,885	95,000 17,745 112,745	30,000 34,840 64,840	130,000 22,300 152,300
- -	- -	- -	- -	- -	- -	- -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS

A Component Unit of St. Clair County, Michigan

BALANCE SHEETS - DEBT SERVICE FUNDS DECEMBER 31, 2006

	Burtchville WSS IX Series 2000	Burtchville WSS IX 2004 Refunding	Algonac/Clay/Ira SDS Series 1999	Algonac/Clay/Ira SDS I Series 2003
ASSETS				
Cash and cash equivalents	\$ 22,208	\$ 8,306	\$ 1,587	\$ 96,369
Contracts receivable	1,800,000	2,340,000	1,330,000	2,715,000
Total Assets	<u>\$ 1,822,208</u>	<u>\$ 2,348,306</u>	<u>\$ 1,331,587</u>	<u>\$ 2,811,369</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Due to other governmental units	\$ 22,208	\$ 8,306	\$ 1,587	\$ 96,369
Deferred revenue	1,800,000	2,340,000	1,330,000	2,715,000
Total Liabilities	<u>1,822,208</u>	<u>2,348,306</u>	<u>1,331,587</u>	<u>2,811,369</u>
Fund Balances:				
Unreserved -				
Designated	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 1,822,208</u>	<u>\$ 2,348,306</u>	<u>\$ 1,331,587</u>	<u>\$ 2,811,369</u>

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - DEBT SERVICE FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:				
Contract Revenue -				
Principal - capital lease	\$ 75,000	\$ 190,000	\$ 190,000	\$ 100,000
Interest - capital lease	94,938	79,815	72,113	109,829
Local	237	-	-	225
Total Revenues	<u>170,175</u>	<u>269,815</u>	<u>262,113</u>	<u>210,054</u>
Expenditures:				
Debt Service -				
Principal retirement	75,000	190,000	190,000	100,000
Interest and fiscal charges	95,175	79,815	72,113	110,054
Total Expenditures	<u>170,175</u>	<u>269,815</u>	<u>262,113</u>	<u>210,054</u>
Excess of revenues over (under) expenditures	-	-	-	-
Fund Balances at beginning of year	-	-	-	-
Fund Balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Algonac/Clay WSS X Series 1998	Total
\$ 2,052	\$ 248,362
5,515,600	36,638,044
<u>\$ 5,517,652</u>	<u>\$ 36,886,406</u>

\$ 2,052	\$ 248,362
5,515,600	36,638,044
<u>5,517,652</u>	<u>36,886,406</u>

-	-
-	-
<u>\$ 5,517,652</u>	<u>\$ 36,886,406</u>

\$ 355,000	\$ 2,795,000
146,765	1,246,937
-	1,248
<u>501,765</u>	<u>4,043,185</u>

355,000	2,795,000
146,765	1,248,185
<u>501,765</u>	<u>4,043,185</u>

-	-
-	-
<u>\$ -</u>	<u>\$ -</u>

Concluded

ST . CLAIR COUNTY DEPARTMENT OF PUBLIC WORKS
A Component Unit of St. Clair County, Michigan

BALANCE SHEETS - CAPITAL PROJECTS FUNDS
DECEMBER 31, 2006

	Ira WSS XI Series 2006	Capac SDS X	Clay WSS IIA	Burtchville WSS IX
ASSETS				
Cash and cash equivalents	\$ 7,683	\$ -	\$ 103,514	\$ -
Due from other governmental units	752,221	-	-	-
Total Assets	<u>\$ 759,904</u>	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	752,221	-	-	-
Fund Balances:				
Unreserved -				
Designated	7,683	-	103,514	-
Total Fund Balances	<u>7,683</u>	<u>-</u>	<u>103,514</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 759,904</u>	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>

STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Revenues:				
Intergovernmental -				
Local	\$ 5,000	\$ -	\$ -	\$ -
Interest earned	2,683	-	4,349	-
Total Revenue	<u>7,683</u>	<u>-</u>	<u>4,349</u>	<u>-</u>
Expenditures:				
Capital outlay	3,172,944	-	-	-
Professional fees	-	-	1,000	-
Refunds	-	92,954	-	21,589
Total Expenditures	<u>3,172,944</u>	<u>92,954</u>	<u>1,000</u>	<u>21,589</u>
Excess of revenues over (under) expenditures	(3,165,261)	(92,954)	3,349	(21,589)
Other Financing Sources:				
Bond/Loan Proceeds	<u>3,172,944</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures	7,683	(92,954)	3,349	(21,589)
Fund Balances at beginning of year	<u>-</u>	<u>92,954</u>	<u>100,165</u>	<u>21,589</u>
Fund Balances at end of year	<u>\$ 7,683</u>	<u>\$ -</u>	<u>\$ 103,514</u>	<u>\$ -</u>

Algonac Clay/Ira SDS I 2003	Total
\$ -	\$ 111,197
-	752,221
<u>\$ -</u>	<u>\$ 863,418</u>

-	752,221
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-	111,197
-	111,197
<u>\$ -</u>	<u>\$ 863,418</u>

\$ -	5,000
-	7,032
-	12,032

-	3,172,944
-	1,000
86,443	200,986
86,443	3,374,930

(86,443)	(3,362,898)
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-	3,172,944
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(86,443)	(189,954)
86,443	301,151
<u>\$ -</u>	<u>\$ 111,197</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of the Department
of Public Works of St. Clair County
St. Clair, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department of Public Works of St. Clair County, Michigan as of and for the year ended December 31, 2006, and have issued our report thereon, dated March 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department of Public Work's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department of Public Work's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department of Public Work's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department of Public Work's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department of Public Work's financial statements that is more than inconsequential will not be prevented or detected by the Department of Public Work's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

The Department of Public Works prepares various financial information throughout the year to assess operations and the financial condition of the Department. However, that information is not required to be a complete presentation in accordance Generally Accepted Accounting Principles. As a result, the Department of Public Works relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Department of Public Works has individuals on staff to review and determine that the financial report is accurate, however, under Government Auditing Standards Statement No. 112, which is first effective for the Department of Public Work's current year end, the staff is not currently prepared to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Department of Public Works is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Department of Public Works would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department of Public Work's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Public Work's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the management and Board of Public Works of St. Clair County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

March 14, 2007